

DELTON KELLOGG SCHOOLS
FINANCIAL REPORT
WITH SUPPLEMENTAL INFORMATION

JUNE 30, 2008

Delton Kellogg Schools

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Delton Kellogg Schools

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INDEPENDENT AUDITOR'S REPORT

Board of Education
Delton Kellogg Schools, Michigan

We have audited the accompanying financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of Delton Kellogg Schools, as of and for the year ended June 30, 2008, which collectively comprise the School District's basic financial statements as listed in the table of contents. These financial statements are the responsibility of Delton Kellogg Schools' management. Our responsibility is to express opinions on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and the significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinions.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, each major fund, and the aggregate remaining fund information of Delton Kellogg Schools as of June 30, 2008, and the respective changes in financial position, for the year then ended, in conformity with accounting principles generally accepted in the United States of America.

The administration's discussion and analysis and budgetary comparison schedules, as identified in the table of contents, are not a required part of the basic financial statements but is supplemental information required by accounting principles generally accepted in the United States of America. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplemental information. However, we did not audit the information and express no opinion on it.

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Board of Education
Delton Kellogg Schools

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise Delton Kellogg Schools basic financial statements. The accompanying other supplemental information, as identified in the table of contents, is presented for purposes of additional analysis and is not a required part of the basic financial statements. The accompanying schedule of expenditures of Federal Awards is presented for purposes of additional analysis as required by U.S. Office of Management and Budget Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*, and is not a required part of the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly stated, in all material respects in relation to the basic financial statements taken as a whole.

In accordance with *Government Auditing Standards*, we have also issued our report dated October 6, 2008, on our consideration of Delton Kellogg School's internal control over financial reporting and on our tests of it's compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

Norman E. Paulsen, P.C.

October 6, 2008

DELTON KELLOGG SCHOOLS

ADMINISTRATION'S DISCUSSION AND ANALYSIS
YEAR ENDED June 30, 2008

This section of Delton Kellogg Schools' annual financial report presents our discussion and analysis of the School District's financial performance during the year ended June 30, 2008. Please read it in conjunction with the School District's financial statements, which immediately follow this section.

Using this Annual Report

This annual report consists of a series of financial statements and notes to those statements. These statements are organized so the reader can understand Delton Kellogg Schools financially as a whole. The *District-wide Financial Statements* provide information about the activities of the whole School District, presenting both an aggregate view of the School District's finances and a longer-term view of those finances. The fund financial statements provide the next level of detail. For governmental activities, these statements tell how services were financed in the short-term as well as what remains for future spending. The fund financial statements look at the School District's operations in more detail than the district-wide financial statements by providing information about the School District's most significant funds - the General Fund, the Capital Projects Fund and the Debt Service Fund, with all other funds presented in one column as nonmajor funds. The remaining statement, the statement of fiduciary net assets, presents financial information about activities for which the School District acts solely as an agent for the benefit of students and parents.

Management's Discussion and Analysis (MD&A)
(Required Supplemental Information)

Basic Financial Statements

District-wide Financial Statements

Fund Financial Statements

Notes to the Basic Financial Statement

(Required Supplemental Information)

Budgetary Information for the General Fund and Major Special Revenue Funds

Other Supplemental Information

Reporting the School District as a whole - District-wide Financial Statements

One of the most important questions asked about the School District is, "As a whole, what is the School District's financial condition as a result of the year's activities?" The statement of net assets and the statement of activities, which appear first in the School District's financial statements, report information on the School District as a whole and its activities in a way that helps you answer this question. We prepare these statements to include all assets and liabilities, using the accrual basis of accounting, which is similar to the accounting used by most private-sector companies. All of the current year's revenues and expenses are taken into account regardless of when cash is received or paid.

DELTON KELLOGG SCHOOLS

ADMINISTRATION'S DISCUSSION AND ANALYSIS - (Continued) YEAR ENDED June 30, 2008

These two statements report the School District's net assets - the difference between assets and liabilities, as reported in the statement of net assets - as one way to measure the School District's financial health or financial position. Over time, increases or decreases in the School District's net assets - as reported in the statement of activities - are indicators of whether its financial health is improving or deteriorating. The relationship between revenues and expenses is the School District's operating results. However, the School District's goal is to provide services to our students, not to generate profits as commercial entities do. One must consider many other nonfinancial factors, such as the quality of the education provided and the safety of the schools, to assess the overall health of the School District.

The statement of net assets and statement of activities report the governmental activities for the School District, which encompass all of the School District's services, including instruction, supporting services, community services, athletics, and food services. Property taxes, unrestricted State Aid (foundation allowance revenue), and State and federal grants finance most of these activities.

Reporting the School District's Most Significant Funds - Fund Financial Statements

The School District's fund financial statements provide detailed information about the most significant funds - not the School District as a whole. Some funds are required to be established by State law and by bond covenants. However, the School District establishes many other funds to help it control and manage money for particular purposes or to show that it's meeting legal responsibilities for using certain taxes, grants, and other money. The governmental funds of the School District use the following accounting approach:

Governmental funds - All of the School District's services are reported in governmental funds. Governmental fund reporting focuses on showing how money flows into and out of funds and the balances left at year end that are available for spending. They are reported using an accounting method called modified accrual accounting, which measures cash and all other financial assets that can readily be converted to cash. The governmental fund statements provide a detailed short-term view of the operations of the School District and the services it provides. Governmental fund information helps you determine whether there are more or fewer financial resources that can be spent in the near future to finance the School District's programs. We describe the relationship (or differences) between governmental activities (reported in the statement of net assets and the statement of activities) and governmental funds in a reconciliation.

DELTON KELLOGG SCHOOLS

ADMINISTRATION'S DISCUSSION AND ANALYSIS - (Continued)
YEAR ENDED June 30, 2008

The School District as Trustee - Reporting the School District's Fiduciary Responsibilities

The School District is the trustee, or fiduciary, for its student activity funds. All of the School District's fiduciary activities are reported in separate statements of fiduciary net assets. We exclude these activities from the School District's other financial statements because the School District cannot use these assets to finance its operations. The School District is responsible for ensuring that the assets reported in these funds are used for their intended purposes.

The School District as a Whole

Recall that the statement of net assets provides the perspective of the School District as a whole. Table I provides a summary of the School District's net assets as of June 30, 2008 and 2007:

TABLE I

	June 30	
	2008	2007
Assets		
Current and other assets	\$ 5,261,789	\$ 5,761,015
Capital assets - Net of accumulated depreciation	<u>14,613,909</u>	<u>15,239,617</u>
Total assets	19,875,698	21,000,632
Liabilities		
Current liabilities	4,587,176	4,476,673
Long-term liabilities	<u>11,541,864</u>	<u>12,515,031</u>
Total liabilities	16,129,040	16,991,704
Net Assets		
Invested in property and equipment - net of related debt	2,236,607	2,321,107
Restricted for debt service	460,831	398,717
Unrestricted	<u>1,049,220</u>	<u>1,289,104</u>
Total net assets	<u>\$ 3,746,658</u>	<u>\$ 4,008,928</u>

DELTON KELLOGG SCHOOLS

ADMINISTRATION'S DISCUSSION AND ANALYSIS - (Continued)
YEAR ENDED June 30, 2008

The above analysis focuses on the net assets (see Table I). The change in net assets (see Table 2) of the School District's governmental activities is discussed below. The School District's net assets were \$3,746,658 at June 30, 2008. Capital assets, net of related debt totaling \$2,236,607 compares the original cost, less depreciation of the School District's capital assets to long-term debt. Most of the debt will be repaid from voter-approved property taxes collected as the debt service comes due. Restricted net assets are reported separately to show legal constraints from debt covenants and enabling legislation that limit the School District's ability to use those net assets for day-to-day operations. The remaining amount of net assets \$1,049,220 was unrestricted.

The \$1,049,220 in unrestricted net assets of governmental activities represents the *accumulated* results of all past years' operations. The operating results of the General Fund will have a significant impact on the change in unrestricted net assets from year to year.

The results of this year's operations for the School District as a whole are reported in the statement of activities (see Table 2), which shows the changes in net assets for fiscal years ended June 30, 2008 and 2007.

TABLE 2

	June 30	
	<u>2008</u>	<u>2007</u>
Revenue		
Program revenue:		
Charges for services	\$ 564,255	\$ 731,110
Grants and categoricals	2,484,517	2,351,840
General revenue:		
Property taxes	3,463,289	3,155,392
State foundation allowance	10,250,020	10,872,543
Interest earnings and other	<u>167,382</u>	<u>196,183</u>
Total revenue	16,929,463	17,307,068
Function/Program Expenses		
Instruction	\$ 9,609,620	\$ 9,803,761
Support services	4,898,484	4,821,130
Community services	118,646	117,252
Food services	702,764	686,219
Athletics	401,920	383,592
Interest on long-term debt	509,776	527,685
Depreciation (unallocated)	<u>950,523</u>	<u>930,381</u>
Total expenses	<u>17,191,733</u>	<u>17,270,020</u>
Increase in net assets	<u>\$ (262,270)</u>	<u>\$ 37,048</u>

DELTON KELLOGG SCHOOLS

ADMINISTRATION'S DISCUSSION AND ANALYSIS - (Continued) YEAR ENDED June 30, 2008

As reported in the statement of activities, the cost of all governmental activities this year was \$17,191,733. Certain activities were partially funded from those who benefited from the programs \$(564,255) or by other governments and organizations that subsidized certain programs with grants and categoricals \$(2,484,517). We paid for the remaining "public benefit" portion of our governmental activities with \$3,463,289 in taxes, \$10,250,020 in State foundation Allowance, and with our other revenues, such as interest and general entitlements.

The School District experienced a decrease in net assets of \$262,270. Key reasons for the change in net assets were capitalizable expenditures and the repayment of bond principal. The change in net assets differs from the change in fund balance and a reconciliation appears on page 15.

As discussed above, the net cost shows the financial burden that was placed on the State and the School District's taxpayers by each of these functions. Since property taxes for operations and unrestricted State aid constitute the vast majority of School District operating revenue sources, the Board of Education and Administration must annually evaluate the needs of the School District and balance those needs with State-prescribed available unrestricted sources.

The School District's Funds

As we noted earlier, the School District uses funds to help it control and manage money for particular purposes. Looking at funds helps the reader consider whether the School District is being accountable for the resources taxpayers and others provide to it and may provide more insight into the School District's overall financial health.

As the School District completed this year, the governmental funds reported a combined fund balance of \$1,731,010, which is a decrease of \$515,562 from last year. In the General Fund, our principal operating fund, the fund balance decreased \$370,782 to \$1,121,589. The General Fund fund balance has been reserved for prepaid assets - \$31,649; reserved for inventories - \$143,852; reserved for encumbrances - \$68,985; and undesignated - \$877,103. In the Capital Projects Fund the fund balance decreased \$203,792 to \$-0-. The purpose of the Capital Projects Fund was complete. In the Debt Service Fund the fund balance increased \$59,759 to \$544,061. Millage rates are determined annually to ensure that the School District accumulates sufficient resources to pay annual bond issue-related debt service. Debt Service Fund fund balance is reserved since it can only be used to pay debt service obligations.

DELTON KELLOGG SCHOOLS

ADMINISTRATION'S DISCUSSION AND ANALYSIS - (Continued)
YEAR ENDED June 30, 2008

General Fund Budgetary Highlights

Over the course of the year, the School District revises its budget as it attempts to deal with changes in revenues and expenditures. State law requires that the budget be amended to ensure that expenditures do not exceed appropriations. A schedule showing the School District's original and final budget amounts compared with amounts actually paid and received is provided in required supplemental information of these financial statements. Changes to the General Fund original budget were as follows:

Budgeted revenues were increased by \$409,945 to better reflect adjustments to state per student foundation funding, adjustments to categorical funding and various grant programs. Actual revenues were within \$108,013 (0.7 percent) of the final budgeted revenues.

Budgeted expenditures were increased by \$421,679. Actual expenditures ended the year under the final budget by \$139,589 (0.9 percent).

Capital Asset and Debt Administration

Capital Assets

At June 30, 2008, the School District had \$31,173,998 invested in a broad range of capital assets, including land, buildings, furniture, and equipment. This amount represents a net increase (including additions and disposals) of \$238,139, or .8 percent, from last year. The majority of this increase was funded out of the Capital Projects Fund.

	<u>2008</u>	<u>2007</u>
Land	\$ 911,103	\$ 911,103
Buildings and improvements	27,747,224	27,540,404
Buses and other vehicles	1,263,710	1,256,216
Furniture and equipment	<u>1,251,961</u>	<u>1,228,136</u>
Total capital assets	31,173,998	30,935,859
Less accumulated depreciation	<u>16,560,089</u>	<u>15,696,242</u>
Net capital assets	<u>\$ 14,613,909</u>	<u>\$ 15,239,617</u>

DELTON KELLOGG SCHOOLS

ADMINISTRATION'S DISCUSSION AND ANALYSIS - (Continued)
YEAR ENDED June 30, 2008

Debt

At the end of this year, the School District had \$12,377,302 in bonds outstanding versus \$13,122,302 in the previous year - a decrease of \$745,000. This change was the result of scheduled principal payments.

	<u>2008</u>	<u>2007</u>
General Obligation Bonds	<u>\$ 12,377,302</u>	<u>\$ 13,122,302</u>

The School District's General Obligation Bond rating continues to be equivalent to the State's credit rating. The State limits the amount of general obligation debt that schools can issue to 15 percent of the assessed value of all taxable property within the School District's boundaries. If the School District issues "qualified debt," i.e., debt backed by the State of Michigan, such obligations are not subject to this debt limit. The School District's outstanding unqualified general obligation debt of \$12.4 million is significantly below the statutorily imposed limit.

Factors Bearing on the District's Future

At the time these financial statements were prepared and audited, the District was aware of existing circumstances that could significantly affect its financial health in the future:

The financial status of the State of Michigan may result in future Executive Order cuts from the Governor.

A reduction in student count will result in a decrease in State Aid (foundation allowance) revenue.

Increases in the employer contribution to the Michigan Public School Employees Retirement System, as well as increased premiums for health insurance will significantly affect the District's finances.

Increases in heating fuel costs and transportation fuel costs.

Contacting the School District's Financial Management

This financial report is designed to provide the School District's citizens, taxpayers, customers, and investors and creditors with a general overview of the School District's finances and to demonstrate the School District's accountability for the money it receives. If you have questions about this report or need additional information, contact the Business Department, 327 North Grove Street, Delton, Michigan 49046.

DELTON KELLOGG SCHOOLS

STATEMENT OF NET ASSETS

June 30, 2008

	<u>Governmental Activities</u>
<u>ASSETS</u>	
Current Assets	
Cash and cash equivalents	\$ 2,679,164
Accounts receivable	251,710
Taxes receivable (net)	-
Due from other governmental units	2,146,527
Prepaid expenses	31,649
Inventories	<u>152,739</u>
Total current assets	5,261,789
Noncurrent Assets	
Capital assets	31,173,998
Less: accumulated depreciation	<u>16,560,089</u>
Total noncurrent assets	<u>14,613,909</u>
Total assets	19,875,698
<u>LIABILITIES</u>	
Current Liabilities	
Short-term note payable	1,850,000
Accounts payable	328,607
Accrued payroll	667,993
Accrued benefits	612,465
Accrued interest	151,311
Deferred revenue	3,633
Accrued severance pay	137,729
Bonds payable, due within one year	<u>835,438</u>
Total current liabilities	4,587,176
Noncurrent Liabilities	
Accrued severance pay	-
Bonds payable	<u>11,541,864</u>
Total noncurrent liabilities	<u>11,541,864</u>
Total liabilities	16,129,040
<u>NET ASSETS</u>	
Invested in capital assets, net of related debt	2,236,607
Restricted for debt service	460,831
Unrestricted	<u>1,049,220</u>
Total net assets	<u><u>\$ 3,746,658</u></u>

See Notes to Financial Statements

DELTON KELLOGG SCHOOLS

STATEMENT OF ACTIVITIES
YEAR ENDED June 30, 2008

		<u>Program Revenues</u>		<u>Governmental</u>
				<u>Activities</u>
				Net (Expense)
				Revenue and
				Changes in Net
	<u>Expenses</u>	<u>Charges for</u>	<u>Operating</u>	<u>Assets</u>
		<u>Services</u>	<u>Grants/</u>	
			<u>Contributions</u>	
Functions/Programs				
Governmental activities:				
Instruction	\$ 9,609,620	\$ 46,385	\$ 1,974,006	\$ (7,589,229)
Support services	4,898,484	-	130,127	(4,768,357)
Food services	702,764	388,717	371,589	57,542
Athletics	401,920	103,673	8,795	(289,452)
Community services	118,646	25,480	-	(93,166)
Interest on long-term debt	509,776	-	-	(509,776)
Depreciation (unallocated)	950,523	-	-	(950,523)
Total Governmental activities	<u>\$ 17,191,733</u>	<u>\$ 564,255</u>	<u>\$ 2,484,517</u>	(14,142,961)
General revenues:				
Taxes				
Property taxes, levied for general operations				2,247,069
Property taxes, levied for debt service				1,216,220
State aid not restricted to specific purposes				10,250,020
Interest and investment earnings				54,862
Other				<u>112,520</u>
Total general revenues				<u>13,880,691</u>
Change in Net Assets				(262,270)
Net Assets - Beginning of year				<u>4,008,928</u>
Net Assets - End of year				<u>\$ 3,746,658</u>

See Notes to Financial Statements

DELTON KELLOGG SCHOOLS

GOVERNMENTAL FUNDS

BALANCE SHEET

June 30, 2008

	<u>General</u>	<u>Capital Projects</u>	<u>Debt Service</u>
<u>ASSETS</u>			
Cash and cash equivalents	\$ 1,999,456	\$ -	\$ 544,336
Accounts receivable	251,418	-	62
Due from other governmental units	2,146,527	-	-
Due from other funds	64,336	-	-
Prepaid expenditures	31,649	-	-
Inventories	<u>143,852</u>	<u>-</u>	<u>-</u>
Total assets	<u>\$ 4,637,238</u>	<u>\$ -</u>	<u>\$ 544,398</u>
<u>LIABILITIES AND FUND BALANCES</u>			
Liabilities			
Short-term note payable	\$ 1,850,000	\$ -	\$ -
Accounts payable	317,537	-	337
Accrued payroll	665,274	-	-
Accrued benefits	611,124	-	-
Accrued interest	68,081	-	-
Due to other funds	-	-	-
Deferred revenue	<u>3,633</u>	<u>-</u>	<u>-</u>
Total liabilities	3,515,649	-	337
Fund Balances:			
Reserved:			
Prepaid assets	31,649	-	-
Inventories	143,852	-	-
Encumbrances	68,985	-	-
Debt service	-	-	544,061
Capital projects	-	-	-
Unreserved:			
Undesignated	<u>877,103</u>	<u>-</u>	<u>-</u>
Total fund balances	<u>1,121,589</u>	<u>-</u>	<u>544,061</u>
Total liabilities and fund balances	<u>\$ 4,637,238</u>	<u>\$ -</u>	<u>\$ 544,398</u>

See Notes to Financial Statements

Other Non-Major Governmental Funds	Total
\$ 135,372	\$ 2,679,164
230	251,710
-	2,146,527
-	64,336
-	31,649
8,887	152,739
<u>\$ 144,489</u>	<u>\$ 5,326,125</u>

\$ -	\$ 1,850,000
10,733	328,607
2,719	667,993
1,341	612,465
-	68,081
64,336	64,336
-	3,633

79,129 3,595,115

-	31,649
8,887	152,739
-	68,985
-	544,061
-	-
<u>56,473</u>	<u>933,576</u>
<u>65,360</u>	<u>1,731,010</u>
<u>\$ 144,489</u>	<u>\$ 5,326,125</u>

DELTON KELLOGG SCHOOLS

GOVERNMENTAL FUNDS
RECONCILIATION OF THE BALANCE SHEET OF GOVERNMENTAL FUNDS
TO THE STATEMENT OF NET ASSETS
June 30, 2008

Total Fund Balances - Governmental Funds \$ 1,731,010

Amounts reported for governmental activities in the
statement of net assets are different because:

Capital assets used in governmental activities are not
financial resources and are not reported in the funds.

The cost of the capital assets is 31,173,998

Accumulated depreciation is (16,560,089)

Total 14,613,909

Long-term liabilities are not due and payable in the
current period and are not reported in the funds:

Accrued severance pay (137,729)

Bonds payable (12,377,302)

Accrued interest payable on long-term liabilities is not
included as a liability in governmental activities (83,230)

Net assets of governmental activities \$ 3,746,658

See Notes to Financial Statements

DELTON KELLOGG SCHOOLS

GOVERNMENTAL FUNDS

STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES
YEAR ENDED June 30, 2008

	<u>General</u>	<u>Capital Projects</u>	<u>Debt Service</u>
Revenues			
Local sources	\$ 2,465,993	\$ 3,028	\$ 1,233,515
State sources	11,280,779	-	-
Federal sources	858,183	-	-
Interdistrict sources	<u>215,191</u>	<u>-</u>	<u>-</u>
Total revenues	14,820,146	3,028	1,233,515
Expenditures			
Instruction	9,741,265	-	-
Supporting services	4,920,021	-	-
Community services	118,646	-	-
Food service	-	-	-
Athletics	-	-	-
Debt service:			
Principal	75,000	-	670,000
Interest and other	81,008	-	503,756
Capital outlay	<u>-</u>	<u>206,820</u>	<u>-</u>
Total expenditures	<u>14,935,940</u>	<u>206,820</u>	<u>1,173,756</u>
Excess (deficiency) of revenues over expenditures	(115,794)	(203,792)	59,759
Other financing sources (uses)			
Operating transfers in	32,000	-	-
Operating transfers out	<u>(286,988)</u>	<u>-</u>	<u>-</u>
Total other financing sources (uses)	<u>(254,988)</u>	<u>-</u>	<u>-</u>
Net Change in Fund Balances	(370,782)	(203,792)	59,759
Fund balances, July 1	<u>1,492,371</u>	<u>203,792</u>	<u>484,302</u>
Fund balances, June 30	<u>\$ 1,121,589</u>	<u>\$ -</u>	<u>\$ 544,061</u>

See Notes to Financial Statements

Other Non-Major Governmental Funds	Total
\$ 501,185	\$ 4,203,721
48,101	11,328,880
323,488	1,181,671
<u>-</u>	<u>215,191</u>
872,774	16,929,463
-	9,741,265
-	4,920,021
-	118,646
726,589	726,589
401,920	401,920
-	745,000
-	584,764
<u>-</u>	<u>206,820</u>
<u>1,128,509</u>	<u>17,445,025</u>
(255,735)	(515,562)
286,988	318,988
<u>(32,000)</u>	<u>(318,988)</u>
<u>254,988</u>	<u>-</u>
(747)	(515,562)
<u>66,107</u>	<u>2,246,572</u>
<u>\$ 65,360</u>	<u>\$ 1,731,010</u>

GOVERNMENTAL FUNDS

Net change in Fund Balances - Total Governmental Funds	\$ (515,562)
--	--------------

Governmental funds report capital outlays as expenditures; in the statement of activities, these costs are allocated over their estimated useful lives as depreciation.

Depreciation expense	(950,523)
----------------------	-----------

Capital outlays	324,815
-----------------	---------

Total	(625,708)
-------	-----------

Accrued interest is recorded in the statement of activities when incurred; it is not reported in governmental funds until paid	2,355
--	-------

Accrued severance pay is reported on the accrual method in the statement of activities, and recorded as an expenditure when financial resources are used in the government funds.

Accrued voluntary severance plan beginning of year	269,374
Accrued voluntary severance plan end of year	(137,729)

Repayment of bond principal is an expenditure in the governmental funds, but not in the statement of activities (where it reduces long-term debt)	745,000
---	---------

Change in Net Assets of Governmental Activities	\$ (262,270)
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DELTON KELLOGG SCHOOLS
FIDUCIARY FUND
STATEMENT OF FIDUCIARY NET ASSETS
June 30, 2008

	Student Activities <u>Agency Fund</u>
<u>ASSETS</u>	
Cash and cash equivalents	<u>\$ 150,978</u>
<u>LIABILITIES</u>	
Due to student groups	<u>\$ 150,978</u>

See Notes to Financial Statements

DELTON KELLOGG SCHOOLS

NOTES TO FINANCIAL STATEMENTS

June 30, 2008

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The accounting policies of Delton Kellogg Public Schools conform to accounting principles generally accepted in the United States of America (GAAP) as applicable to governmental units. The following is a summary of the significant accounting policies used by the School District:

Reporting Entity

The School District is governed by an elected seven-member Board of Education. The accompanying financial statements have been prepared in accordance with criteria established by the Governmental Accounting Standards Board for determining the various governmental organizations to be included in the reporting entity. These criteria include significant operational financial relationships that determine which of the governmental organizations are a part of the School Districts' reporting entity, and which organizations are legally separate, component units of the school district. Based on the application of the criteria, the district does not contain any component units.

District-Wide and Fund Financial Statements

The district-wide financial statements (i.e., the statement of net assets and the statement of changes in net assets) report information on all of the nonfiduciary activities of the primary government. For the most part, the effect of interfund activity has been removed from these statements. Governmental activities, which normally are supported by taxes and intergovernmental revenues, are reported separately from business-type activities, which rely to a significant extent on fees and charges for support. All the district's government wide activities are considered governmental activities.

The statement of activities demonstrates the degree to which the direct expenses of a given function or segment are offset by program revenues. Direct expenses are those that are clearly identifiable with a specific function. Program revenue includes (1) charges to customers or applicants who purchase, use, or directly benefit from goods, services, or privileges provided by a given function and (2) grants and contributions that are restricted to meeting the operational or capital requirements of a particular function. Taxes, intergovernmental payments, and other items not properly included among program revenues are reported instead as general revenue.

Separate financial statements are provided for governmental funds and fiduciary funds, even though the latter are excluded from the government-wide financial statements. Major individual governmental funds are reported as separate columns in the fund financial statements.

DELTON KELLOGG SCHOOLS

NOTES TO FINANCIAL STATEMENTS

June 30, 2008

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Measurement Focus, Basis of Accounting, and Financial Statement Presentation

District-Wide Statements - The district-wide financial statements are reported using the economic resources measurement focus and the accrual basis of accounting. Revenue is recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Property taxes are recognized as revenue in the year for which they are levied. Grants, categorical aid, and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met.

As a general rule, the effect of interfund activity has been eliminated from the government-wide financial statements.

Amounts reported as program revenue include (1) charges to customer or applicants for goods, services, or privileges provided; (2) operating grants and contributions; and (3) capital grants and contributions. Internally dedicated resources are reported as general revenue rather than as program revenue. Likewise, general revenue includes all taxes and unrestricted State aid.

Fund-based Statements - Governmental fund financial statements are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Revenue is recognized as soon as it is both measurable and available. Revenue is considered to be available if it is collected within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the government considers revenues to be available if they are collected within 60 days of the end of the current fiscal period. Expenditures generally are recorded when a liability is incurred, as under accrual accounting. However, debt service expenditures, as well as expenditures related to compensated absences and claims and judgments, are recorded only when payment is due.

Property taxes, unrestricted State aid, intergovernmental grants, and interest associated with the current fiscal period are all considered to be susceptible to accrual and so have been recognized as revenue of the current fiscal period. All other revenue items are considered to be available only when cash is received by the government.

Fiduciary fund statements also are reported using the economic resources measurement focus and the accrual basis of accounting.

The school district reports the following major governmental funds:

The General Fund is the school district's primary operating fund. It accounts for all financial resources of the district, except those required to be accounted for in another fund.

DELTON KELLOGG SCHOOLS

NOTES TO FINANCIAL STATEMENTS

June 30, 2008

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

The Capital Projects Fund is used to record bond proceeds or other revenue and the disbursement of funds specifically designated for acquiring new school sites, buildings, equipment, and for major remodeling and repairs. The fund is retained until the purpose for which the fund was created has been accomplished.

The Debt Service Fund is used to record tax, interest, other revenue for payment, principle, and other expenditures on the bond issues.

Additionally, the government reports the following fund types:

Special Revenue Funds are used to account for the proceeds of specific revenue sources that are restricted to expenditures for specified purposes.

The School Service Funds are Special Revenue Funds that segregate, for administrative purposes, the transactions of a particular activity from regular revenue and expenditure accounts. The School District maintains full control of these funds. The School Service Funds maintained by the School District are the Athletic Fund and Food Services Fund.

Fiduciary Funds are used to account for assets held by the School District in a trustee capacity or as an agent. Fiduciary Fund net assets and results of operations are not included in the government-wide statements. Agency Funds are custodial in nature (assets equal liabilities) and do not involve measurement of results of operations.

The School District presently maintains a Student Activities Fund to record the transactions of student and parent groups for school and school-related purposes. The funds are segregated and held in trust for the students and parents.

Assets, Liabilities, and Net Assets or Equity

Deposits and Investments - Cash and cash equivalents include cash on hand, demand deposits, and short-term investments with a maturity of three months or less when acquired. Investments are stated at fair value.

Receivables and Payables - In general, outstanding balances between funds are reported as "due to/from other funds." Activity between funds that are representative of lending/borrowing arrangements outstanding at the end of the fiscal year are referred to as "advances to/from other funds."

DELTON KELLOGG SCHOOLS

NOTES TO FINANCIAL STATEMENTS

June 30, 2008

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Property tax and other trade receivables are shown net of an allowance for uncollectible amounts. Property taxes are assessed as of December 31 and the related property taxes become a lien on December 1 of the following year. Taxes are considered delinquent on March 1 of the following year. At this time, penalties and interest are assessed and the total obligation is added to the county tax rolls.

The State of Michigan utilized a foundation allowance approach, which provides for a specific annual amount of revenue per student based on a state-wide formula. The foundation allowance is funded from a combination of state and local sources. Revenues from state sources are primarily governed by the School Aid Act and the School Code of Michigan. The state portion of the foundation is provided from the state's School Aid Fund and is recognized as revenue in accordance with state law and accounting principles generally accepted in the United States of America.

The District also receives revenue from the state to administer certain categorical education programs. State rules require that revenue earmarked for these programs be used for its specific purpose. Certain categorical funds require an accounting to the state of the expenditures incurred. For categorical funds meeting this requirement, funds received, which are not expended by the close of the fiscal year are recorded as deferred revenue. Other categorical funding is recognized when the appropriation is received.

Inventories and Prepaid Items - Inventories are valued at cost, on a first-in, first-out basis. Inventories of governmental funds are recorded as expenditures when consumed rather than when purchased. Certain payments to vendors reflect costs applicable to future fiscal years and are recorded as prepaid items in both government-wide and fund financial statements.

Capital Assets - Capital assets, which include land, buildings, equipment, and vehicles are reported in the applicable governmental column in the government-wide financial statements. Capital assets are defined by the government as assets with an initial individual cost of more than \$5,000 and an estimated useful life in excess of five years. Such assets are recorded at historical cost or estimated historical cost if purchased or constructed. Donated capital assets are recorded at estimated fair market value at the date of donation. Costs of normal repair and maintenance that do not add to the value or materially extend asset life are not capitalized. The school district does not have infrastructure type assets.

DELTON KELLOGG SCHOOLS

NOTES TO FINANCIAL STATEMENTS

June 30, 2008

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Buildings, equipment, and vehicles are depreciated using the straight-line method over the following useful lives:

Buildings and additions	20-50 years
Buses and other vehicles	5-10 years
Furniture and other equipment	5-10 years

Long-Term Obligations - In the government-wide financial statements, long-term debt and other long-term obligations are reported as liabilities in the statement of net assets. Bond premiums and discounts, as well as issuance costs, are deferred and amortized over the life of the bonds using the effective interest method. Bonds payable are reported net of the applicable bond premium or discount. Bond issuance costs are reported as deferred charges and amortized over the term of the related debt.

In the fund financial statements, governmental fund types recognize bond premiums and discounts, as well as bond issuance costs, during the current period.

Premiums received on debt issuances are reported as other financing sources while discounts are reported as other financing uses. Issuance costs are reported as debt service expenditures.

Fund equity - In the fund financial statements, governmental funds report reservations of fund balance for amounts that are not available for appropriation or are legally restricted by outside parties for use for a specific purpose. Designations of fund balance represent tentative management plans that are subject to change.

Comparative Data/Reclassifications - Comparative data is not included in the district's financial statements.

NOTE 2 - STEWARDSHIP, COMPLIANCE AND ACCOUNTABILITY

Budgetary Information - Annual budgets are adopted on a basis consistent with generally accepted accounting principles and state law for the general and special revenue funds. All annual appropriations lapse at fiscal year end.

The budget document presents information by fund and function. The legal level of budgetary control adopted by the governing body (i.e., the level at which expenditures may not legally exceed appropriations) is the function level. State law requires the district to have its budget in place by July 1. Expenditures in excess of amounts budgeted is a violation of Michigan Law. State law permits districts to amend its budgets during the year. There were no significant amendments during the year.

DELTON KELLOGG SCHOOLS

NOTES TO FINANCIAL STATEMENTS

June 30, 2008

NOTE 2 - STEWARDSHIP, COMPLIANCE AND ACCOUNTABILITY - Continued

Encumbrance accounting is employed in governmental funds. Encumbrances (e.g., purchase orders, contracts) outstanding at year end are reported as reservations of fund balances and do not constitute expenditures or liabilities because the goods or services have not been received as of year end; the commitments will be reappropriated and honored during the subsequent year.

Excess of Expenditures Over Appropriations in Budgeted Funds - The School district did not have significant expenditure budget variances.

Capital Projects Fund Compliance - The Capital Projects Funds include capital project activities funded with bonds issued after May 1, 1994. For these capital projects, the School District has complied with the applicable provisions of 1351a of the State of Michigan's School Code.

NOTE 3 - CASH AND CASH EQUIVALENTS

The School District's cash and cash equivalents at June 30, 2008, are composed of the following:

	<u>Governmental Activities</u>	<u>Fiduciary Funds</u>	<u>Total Primary Government</u>
Deposits	<u>\$ 2,679,164</u>	<u>\$ 150,978</u>	<u>\$ 2,830,142</u>

Deposits consist of checking, savings, and bank municipal investment funds. The above deposits were reflected in the accounts of the bank (without recognition of checks written but not yet cleared, or of deposits in transit) at \$2,975,841. Of that amount, \$250,000 was covered by federal depository insurance coverage or secured and \$685,336 was uninsured and uncollateralized. The balance of \$2,040,505 was invested in the bank municipal investment funds which are not categorized by risk.

The School District believes that due to the dollar amounts of cash deposits and the limits of FDIC insurance, it is impractical to insure all bank deposits. The School District evaluates each financial institution it deposits School District funds with and assesses the level of risk of each institution; only those institutions with an acceptable estimated risk level are used as depositories.

DELTON KELLOGG SCHOOLS

NOTES TO FINANCIAL STATEMENTS

June 30, 2008

NOTE 4 - CAPITAL ASSETS

Capital asset activity of the School District's governmental activities was as follows:

	Balance July 1, 2007	Additions	Disposals and Adjustments	Balance June 30, 2008
Assets not being depreciated - Land	\$ 911,103	\$ -	\$ -	\$ 911,103
Capital assets being depreciated:				
Buildings and building improvements	27,540,404	206,820	-	27,747,224
Buses and other vehicles	1,256,216	94,170	86,676	1,263,710
Furniture and equipment	<u>1,228,136</u>	<u>23,825</u>	<u>-</u>	<u>1,251,961</u>
Subtotal	30,024,756	324,815	86,676	30,262,895
Accumulated depreciation:				
Buildings and building improvements	13,980,957	781,773	-	14,762,730
Buses and other vehicles	944,107	96,356	86,676	953,787
Furniture and equipment	<u>771,178</u>	<u>72,394</u>	<u>-</u>	<u>843,572</u>
Subtotal	<u>15,696,242</u>	<u>950,523</u>	<u>86,676</u>	<u>16,560,089</u>
Net capital assets being depreciated	<u>14,328,514</u>			<u>13,702,806</u>
Net capital assets	<u>\$ 15,239,617</u>			<u>\$ 14,613,909</u>

Depreciation expense was not charged to activities as the School District considers its assets to impact multiple activities and allocation is not practical.

NOTE 5 - INTERFUND RECEIVABLES, PAYABLES, AND TRANSFERS

The composition of interfund balances is as follows:

Receivable Fund	Payable Fund	Amount
Due To/From Other Funds:		
General Fund	Other governmental funds	<u>\$ 64,336</u>
Interfund Transfers:		
	Transfer Out:	
	General Fund	
Transfer in:		
Other governmental funds		<u>\$ 254,988</u>

DELTON KELLOGG SCHOOLS

NOTES TO FINANCIAL STATEMENTS

June 30, 2008

NOTE 6 - SHORT-TERM NOTE PAYABLE

Michigan Municipal Bond Authority
State Aid note payable on August
20, 2008 plus interest at 3.68%

\$ 1,850,000

NOTE 7 - LONG-TERM DEBT

The school district issues bonds, notes, and other contractual commitments to provide for the acquisition and construction of major capital facilities and the acquisition of certain equipment. General obligation bonds are direct obligations and pledge the full faith and credit of the school district. Other long-term obligations include accumulated severance pay.

Long-term obligation activity can be summarized as follows:

Governmental Activities

	<u>Beginning Balance</u>	<u>Additions</u>	<u>Reductions</u>	<u>Ending Balance</u>	<u>Due Within One Year</u>
Bonds	\$13,122,302	\$ -	\$ 745,000	\$12,377,302	<u>\$ 835,438</u>
Other Obligations	<u>269,374</u>	<u>-</u>	<u>131,645</u>	<u>137,729</u>	<u>\$ 137,729</u>
Totals	<u>\$13,391,676</u>	<u>\$ -</u>	<u>\$ 876,645</u>	<u>\$12,515,031</u>	

The annual requirement to service the bonds outstanding to maturity, including both principal and interest, are as follows:

<u>Year ended June 30,</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2009	\$ 835,438	\$ 499,384	\$ 1,334,822
2010	802,419	468,479	1,270,898
2011	867,773	442,289	1,310,062
2012	938,142	413,970	1,352,112
2013	1,013,530	378,706	1,392,236
Thereafter	<u>7,920,000</u>	<u>1,273,412</u>	<u>9,193,412</u>
	<u>\$12,377,302</u>	<u>\$3,476,240</u>	<u>\$15,853,542</u>

DELTON KELLOGG SCHOOLS

NOTES TO FINANCIAL STATEMENTS

June 30, 2008

NOTE 7 - LONG-TERM DEBT - (Continued)

Governmental Activities:

General obligation bonds consist of:

2003 General Obligation School Building and Site and Refunding Bonds payable in annual installments of \$185,000 to \$1,540,000 plus interest at 2.00% to 4.50% through May 2019	\$ 12,245,000
1999 General Obligation Energy Conservation Improvement Bonds payable in annual installments of \$75,000 to \$80,000 plus interest at 5.0% through May 2009	80,000
\$127,259 1998 School Improvement Bond (Durant Settlement) payable in annual installments of \$8,936 through May 15, 2013; interest at 4.76%; annual principal and interest payments are to be paid directly by the State of Michigan	<u>52,302</u>
Total bonds payable	<u>\$ 12,377,302</u>

Other governmental activity long-term obligations include:

Accumulated severance pay payable annually from January 2008 through January 2009	<u>\$ 137,729</u>
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NOTE 8 - RISK MANAGEMENT

The School District is exposed to various risks of loss related to property loss, torts, errors and omissions, and employee injuries (workers' compensation), as well as medical benefits provided to employees. The School District has purchased commercial insurance for property loss, torts, errors and omissions, and medical claims for certain employee groups. Settled claims relating to the commercial insurance have not exceeded the amount of insurance coverage in any of the past three fiscal years.

DELTON KELLOGG SCHOOLS

NOTES TO FINANCIAL STATEMENTS

June 30, 2008

NOTE 9 - DEFINED BENEFIT PENSION PLAN AND POST RETIREMENT BENEFITS

Plan Description - The School District participates in the Michigan Public School Employees' Retirement System (MPERS), a statewide, cost-sharing, multiple-employer defined benefit public employee retirement system governed by the State of Michigan that covers substantially all employees of the District. The system provides retirement, survivor and disability benefits to plan members and their beneficiaries. The Michigan Public School Employees' Retirement System issues a publicly available financial report that includes financial statements and required supplementary information for the system. That report may be obtained by writing to the system at 7150 Harris Drive, P.O. Box 30673, Lansing, MI 48909-8103.

Funding Policy - Employer contributions to the system result from the implementing effect of the School Finance Reform Act. Under these procedures, each school district is required to contribute the full actuarial funding contribution amount to fund pension benefits, plus an additional amount to fund retiree health care benefit amounts on a cash disbursement basis.

The pension benefit rate totals 17.74 percent for the period July 1, 2007 through September 30, 2007 and 16.72 percent for the period October 1, 2007 through June 30, 2008 of the covered payroll to the plan. Basic plan members make no contributions, but Member Investment Plan members contribute at rates ranging from 3 percent to 4.3 percent of gross wages. The District's contributions to the MPERS plan for the years ended June 30, 2008, 2007, and 2006 were \$1,462,040, \$1,569,593, and \$1,543,650.

Post Employment Benefits - Under the MPERS Act, all retirees participating in the MPERS Pension Plan have the option of continuing health, dental, and vision coverage. Retirees having these coverages contribute an amount equivalent to the monthly cost for Part B Medicare and 10 percent of the monthly premium amount for the health, dental, and vision coverages. Required contributions for post employment health care benefits are included as part of the District's total contribution to the MPERS plan discussed above.

REQUIRED SUPPLEMENTAL INFORMATION

DELTON KELLOGG SCHOOLS

REQUIRED SUPPLEMENTAL INFORMATION
BUDGETARY COMPARISON SCHEDULE - GENERAL FUND
YEAR ENDED June 30, 2008

	Original Budget	Final Budget	Actual	Over (under) Final Budget
Revenues:				
Local sources	\$ 2,531,946	\$ 2,588,201	\$ 2,465,993	\$ (122,208)
State sources	10,977,138	11,268,452	11,280,779	12,327
Federal sources	796,972	856,315	858,183	1,868
Interdistrict sources	<u>212,158</u>	<u>215,191</u>	<u>215,191</u>	<u>-</u>
Total revenue	14,518,214	14,928,159	14,820,146	(108,013)
Expenditures:				
Instruction				
Basic programs	7,323,161	7,644,038	7,670,156	26,118
Added needs	1,808,459	1,844,302	1,705,797	(138,505)
Adult/community education	389,814	381,709	365,312	(16,397)
Support services				
Pupil	366,227	443,761	413,460	(30,301)
Instructional staff	165,989	161,758	194,179	32,421
General administration	560,698	452,137	462,458	10,321
School administration	858,613	886,323	882,120	(4,203)
Business services	302,299	328,903	359,027	30,124
Operations and maintenance	1,717,985	1,684,632	1,682,225	(2,407)
Transportation	624,353	689,413	663,874	(25,539)
Technology services	255,030	278,391	262,678	(15,713)
Community services	120,847	119,787	118,646	(1,141)
Debt service				
Principal	75,000	75,000	75,000	-
Interest and other	<u>85,375</u>	<u>85,375</u>	<u>81,008</u>	<u>(4,367)</u>
Total expenditures	<u>14,653,850</u>	<u>15,075,529</u>	<u>14,935,940</u>	<u>(139,589)</u>
Excess (deficiency) of revenues over expenditures	(135,636)	(147,370)	(115,794)	31,576
Other financing sources (uses)				
Operating transfers in	5,000	25,000	32,000	7,000
Operating transfers out	<u>(250,514)</u>	<u>(299,556)</u>	<u>(286,988)</u>	<u>(12,568)</u>
Total other financing sources (uses)	<u>(245,514)</u>	<u>(274,556)</u>	<u>(254,988)</u>	<u>19,568</u>
Net change in fund balance	(381,150)	(421,926)	(370,782)	51,144
Fund balance, July 1	<u>1,492,371</u>	<u>1,492,371</u>	<u>1,492,371</u>	<u>-</u>
Fund balance, June 30	<u>\$ 1,111,221</u>	<u>\$ 1,070,445</u>	<u>\$ 1,121,589</u>	<u>\$ 51,144</u>

OTHER SUPPLEMENTAL INFORMATION

DELTON KELLOGG SCHOOLS

OTHER SUPPLEMENTAL INFORMATION

GENERAL FUND
STATEMENT OF REVENUES
YEAR ENDED June 30, 2008

Local sources	
Property taxes	\$ 2,247,069
Tuition	71,865
Interest on invested balances	34,539
Sale of school property	41,860
Miscellaneous	<u>70,660</u>
Total local sources	2,465,993
State sources	
Foundation	10,203,945
At risk	373,858
Adult education	257,342
Early childhood education	61,200
Declining enrollment	46,075
Vocational education	24,218
Special education	301,416
Durant Settlement	<u>12,725</u>
Total state sources	11,280,779
Federal sources	
Title I Part A	368,075
Title II Part D	2,986
Title V LEA allocation	1,923
Adult basic education	120,000
CTE Perkins/Tech Prep	13,408
Drug free schools	6,179
I.D.E.A. program	200,500
Title IIA Improving Teacher Quality	109,587
Medicaid outreach	<u>35,525</u>
Total federal sources	858,183
Interdistrict sources	
Durant settlement	7,815
Special education	<u>207,376</u>
Total interdistrict sources	<u>215,191</u>
Total revenues	<u>\$ 14,820,146</u>

DELTON KELLOGG SCHOOLS

OTHER SUPPLEMENTAL INFORMATION

GENERAL FUND
STATEMENT OF EXPENDITURES
YEAR ENDED June 30, 2008

Instruction

Basic Programs

Elementary

Salaries	\$ 1,614,000
Employee benefits	835,876
Purchased services	48,428
Supplies, material, and other	123,218
Capital outlay	<u>-</u>
	2,621,522

Middle school

Salaries	1,399,174
Employee benefits	776,313
Purchased services	62,180
Supplies, material, and other	122,484
Capital outlay	<u>-</u>
	2,360,151

High school

Salaries	1,545,790
Employee benefits	791,266
Purchased services	78,835
Supplies, material, and other	136,254
Capital outlay	<u>-</u>
	2,552,145

Pre-School

Salaries	93,772
Employee benefits	39,170
Purchased services	1,561
Supplies, materials, and other	<u>1,835</u>
	136,338

Total basic programs

7,670,156

Added needs

Special education

Salaries	801,515
Employee benefits	386,360
Purchased services	35,745
Supplies, material, and other	<u>3,797</u>
	1,227,417

Compensatory education

Salaries	217,298
Employee benefits	84,355
Purchased services	-
Supplies, material, and other	<u>7,203</u>
	308,856

DELTON KELLOGG SCHOOLS

OTHER SUPPLEMENTAL INFORMATION

GENERAL FUND
STATEMENT OF EXPENDITURES (Continued)
YEAR ENDED June 30, 2008

Career and technical education	
Salaries	59,387
Employee benefits	45,423
Purchased services	25,376
Supplies, materials, and other	<u>39,338</u>
	169,524
Total added needs	1,705,797
Adult education services	
Basic	
Salaries	240,860
Employee benefits	103,438
Purchased services	8,389
Supplies, materials, and	<u>12,625</u>
Total adult education services	<u>365,312</u>
Total instruction	9,741,265
Supporting services	
Pupil services	
Guidance services	
Salaries	254,346
Employee benefits	151,944
Supplies, materials, and other	<u>4,613</u>
	410,903
Other pupil services	
Salaries	2,022
Employee benefits	<u>535</u>
	<u>2,557</u>
Total pupil services	413,460
Instructional staff services	
Improvement of instruction	
Purchased services	30,955
Library	
Salaries	92,079
Employee benefits	39,519
Purchased services	600
Supplies, materials, and other	<u>19,134</u>
	151,332
Audio-visual	
Supplies, materials, and other	<u>11,892</u>
Total instructional staff services	194,179

DELTON KELLOGG SCHOOLS

OTHER SUPPLEMENTAL INFORMATION

GENERAL FUND
STATEMENT OF EXPENDITURES (Continued)
YEAR ENDED June 30, 2008

General administrative services

Board of education

Salaries	-
Purchased services	144,248
Supplies, materials, and other	<u>17,524</u>
	161,772

Executive administration

Salaries	166,930
Employee benefits	88,484
Purchased services	38,531
Supplies, materials, and other	<u>6,741</u>
	<u>300,686</u>

Total general administrative services 462,458

School administrative services

Office of the principal

Salaries	589,714
Employee benefits	276,094
Purchased services	4,309
Supplies, materials, and other	12,003
Capital outlay	<u>-</u>

Total school administrative services 882,120

Business services

Fiscal services

Salaries	150,195
Employee benefits	84,074
Purchased services	16,226
Supplies, materials, and other	<u>3,205</u>
	253,700

Other services

Salaries	-
Employee benefits	-
Purchased services	52,684
Supplies, materials, and other	52,643
Capital outlay	<u>-</u>
	<u>105,327</u>

Total business services 359,027

DELTON KELLOGG SCHOOLS

OTHER SUPPLEMENTAL INFORMATION

GENERAL FUND

STATEMENT OF EXPENDITURES (Continued)

YEAR ENDED June 30, 2008

Operation and maintenance services

Operation and maintenance

Salaries	541,484
Employee benefits	417,943
Purchased services	306,618
Supplies, materials, and other	416,180
Capital outlay	<u>-</u>

Total operation and maintenance services 1,682,225

Pupil transportation services

Pupil transportation

Salaries	297,096
Employee benefits	142,292
Purchased services	12,067
Supplies, materials, and other	118,249
Capital outlay	<u>94,170</u>

Total pupil transportation services 663,874

Other supporting services

Technology services

Salaries	122,756
Employee benefits	60,252
Purchased services	48,183
Supplies, materials, and other	6,546
Capital outlay	<u>24,941</u>

Total technology services 262,678

Total supporting services 4,920,021

Community services

Community education

Salaries	84,858
Employee benefits	33,449
Purchased services	-
Supplies, materials, and other	<u>339</u>

Total community education 118,646

Debt service

Principal payments	75,000
Interest	<u>81,008</u>

Total debt service 156,008

Total expenditures \$ 14,935,940

DELTON KELLOGG SCHOOLS
OTHER SUPPLEMENTAL INFORMATION
COMBINING BALANCE SHEET
NONMAJOR GOVERNMENTAL FUNDS
June 30, 2008

	<u>Special Revenue Funds</u>		
	<u>Food</u>	<u>Athletics</u>	<u>Total</u>
<u>ASSETS</u>	<u>Services</u>		
Cash and cash equivalents	\$ 104,372	\$ 31,000	\$ 135,372
Accounts receivable	-	230	230
Due from other governmental units	-	-	-
Due from other funds	-	-	-
Inventory	<u>8,887</u>	<u>-</u>	<u>8,887</u>
Total assets	<u>\$ 113,259</u>	<u>\$ 31,230</u>	<u>\$ 144,489</u>
<u>LIABILITIES AND FUND BALANCES</u>			
Liabilities:			
Accounts payable	\$ 10,113	\$ 620	\$ 10,733
Accrued payroll	-	2,719	2,719
Accrued benefits	-	1,341	1,341
Due to other funds	<u>39,336</u>	<u>25,000</u>	<u>64,336</u>
Total liabilities	49,449	29,680	79,129
Fund balances:			
Reserved:			
Inventory	8,887	-	8,887
Unreserved:			
Undesignated	<u>54,923</u>	<u>1,550</u>	<u>56,473</u>
Total fund balances	<u>63,810</u>	<u>1,550</u>	<u>65,360</u>
Total liabilities and fund balances	<u>\$ 113,259</u>	<u>\$ 31,230</u>	<u>\$ 144,489</u>

DELTON KELLOGG SCHOOLS

OTHER SUPPLEMENTAL INFORMATION

COMBINING STATEMENT OF REVENUES, EXPENDITURES
AND CHANGES IN FUND BALANCES - NONMAJOR GOVERNMENTAL FUND
YEAR ENDED June 30, 2008

	<u>Special Revenue Funds</u>		
	<u>Food Services</u>	<u>Athletics</u>	<u>Total</u>
Revenues:			
Local sources	\$ 388,717	\$ 112,468	\$ 501,185
State sources	48,101	-	48,101
Federal sources	<u>323,488</u>	<u>-</u>	<u>323,488</u>
Total revenues	760,306	112,468	872,774
Expenditures:			
Food services	726,589	-	726,589
Athletics	<u>-</u>	<u>401,920</u>	<u>401,920</u>
Total expenditures	<u>726,589</u>	<u>401,920</u>	<u>1,128,509</u>
Excess (deficiency) of revenues over expenditures	33,717	(289,452)	(255,735)
Other Financing Sources (Uses):			
Operating transfers in	-	286,988	286,988
Operating transfers out	<u>(32,000)</u>	<u>-</u>	<u>(32,000)</u>
Total other financing sources (uses)	<u>(32,000)</u>	<u>286,988</u>	<u>254,988</u>
Net change in fund balances	1,717	(2,464)	(747)
Fund balances, July 1	<u>62,093</u>	<u>4,014</u>	<u>66,107</u>
Fund balances, June 30	<u>\$ 63,810</u>	<u>\$ 1,550</u>	<u>\$ 65,360</u>

DELTON KELLOGG SCHOOLS

OTHER SUPPLEMENTAL INFORMATION

FOOD SERVICE SPECIAL REVENUE FUND
STATEMENT OF REVENUES, EXPENDITURES AND CHANGES
IN FUND BALANCES - BUDGET AND ACTUAL
YEAR ENDED June 30, 2008

	<u>Budget</u>	<u>Actual</u>	<u>Over (Under) Budget</u>
Revenues:			
Local sources	\$ 377,037	\$ 388,717	\$ 11,680
State sources	48,101	48,101	-
Federal sources	<u>320,000</u>	<u>323,488</u>	<u>3,488</u>
Total revenues	745,138	760,306	15,168
Expenditures:			
Salaries	249,501	247,696	(1,805)
Employee benefits	96,859	92,266	(4,593)
Purchased services	12,761	12,399	(362)
Supplies, material, and other	356,579	344,840	(11,739)
Capital outlay	<u>32,563</u>	<u>29,388</u>	<u>(3,175)</u>
Total expenditures	<u>748,263</u>	<u>726,589</u>	<u>(21,674)</u>
Excess (deficiency) of revenues over expenditures	(3,125)	33,717	36,842
Other Financing Sources (Uses):			
Operating transfers out	<u>(25,000)</u>	<u>(32,000)</u>	<u>7,000</u>
Excess (deficiency) of revenues over expenditures and other sources	(28,125)	1,717	29,842
Fund balances, July 1	<u>62,093</u>	<u>62,093</u>	<u>-</u>
Fund balances, June 30	<u>\$ 33,968</u>	<u>\$ 63,810</u>	<u>\$ 29,842</u>

DELTON KELLOGG SCHOOLS

OTHER SUPPLEMENTAL INFORMATION

ATHLETIC SPECIAL REVENUE FUND
STATEMENT OF REVENUES, EXPENDITURES AND CHANGES
IN FUND BALANCES - BUDGET AND ACTUAL
YEAR ENDED June 30, 2008

	<u>Budget</u>	<u>Actual</u>	<u>Over (Under) Budget</u>
Revenues:			
Local sources	\$ 109,544	\$ 112,468	\$ 2,924
Expenditures:			
Salaries	235,067	230,147	(4,920)
Employee benefits	61,475	58,282	(3,193)
Purchased services	54,843	54,839	(4)
Supplies, material, and other	37,007	37,958	951
Capital outlay	<u>20,708</u>	<u>20,694</u>	<u>(14)</u>
Total expenditures	<u>409,100</u>	<u>401,920</u>	<u>(7,180)</u>
Excess (deficiency) of revenues over expenditures	(299,556)	(289,452)	10,104
Other Financing Sources:			
Operating transfers in	<u>299,556</u>	<u>286,988</u>	<u>(12,568)</u>
Excess (deficiency) of revenues over expenditures and other financing sources	-	(2,464)	(2,464)
Fund balances, July 1	<u>4,014</u>	<u>4,014</u>	<u>-</u>
Fund balances, June 30	<u>\$ 4,014</u>	<u>\$ 1,550</u>	<u>\$ (2,464)</u>

DELTON KELLOGG SCHOOLS

OTHER SUPPLEMENTAL INFORMATION

STUDENT ACTIVITIES AGENCY FUND
STATEMENT OF CHANGES IN ASSETS AND LIABILITIES
YEAR ENDED June 30, 2008

	Balances			Balances
	<u>June 30, 2007</u>	<u>Additions</u>	<u>Deductions</u>	<u>June 30, 2008</u>
<u>ASSETS</u>				
Cash and cash equivalents	\$ <u>145,127</u>	\$ <u>374,931</u>	\$ <u>369,080</u>	\$ <u>150,978</u>
<u>LIABILITIES</u>				
Due to student groups	\$ <u>145,127</u>	\$ <u>374,931</u>	\$ <u>369,080</u>	\$ <u>150,978</u>

DELTON KELLOGG SCHOOLS

OTHER SUPPLEMENTAL INFORMATION

STATEMENT OF BONDED INDEBTEDNESS
\$14,445,000 2003 General Obligation School Building
and Site and Refunding Bonds

<u>Year Ended</u> <u>June 30</u>	<u>Rate</u>	<u>Principal</u>	<u>Interest</u>		<u>Total</u>
		<u>May 1</u>	<u>November 1</u>	<u>May 1</u>	
2009	3.00	\$ 735,000	\$ 244,506	\$ 244,506	\$ 1,224,012
2010	3.25	795,000	233,481	233,481	1,261,962
2011	3.25	860,000	220,563	220,563	1,301,126
2012	3.75	930,000	206,588	206,588	1,343,176
2013	4.00	1,005,000	189,150	189,150	1,383,300
2014	4.00	1,090,000	169,050	169,050	1,428,100
2015	4.25	1,180,000	147,250	147,250	1,474,500
2016	4.00	1,270,000	122,175	122,175	1,514,350
2017	4.375	1,370,000	96,775	96,775	1,563,550
2018	4.375	1,470,000	66,806	66,806	1,603,612
2019	4.50	1,540,000	34,650	34,650	1,609,300
		<u>\$ 12,245,000</u>	<u>\$ 1,730,994</u>	<u>\$ 1,730,994</u>	<u>\$15,706,988</u>

DELTON KELLOGG SCHOOLS

OTHER SUPPLEMENTAL INFORMATION

STATEMENT OF BONDED INDEBTEDNESS

\$645,000 1999 Energy Conservation Improvement Bonds

<u>Year Ended</u> <u>June 30</u>	<u>Rate</u>	<u>Principal</u> <u>May 1</u>	<u>Interest</u> <u>November 1</u>	<u>May 1</u>	<u>Total</u>
2009	5.00	<u>\$ 80,000</u>	<u>\$ 2,000</u>	<u>\$ 2,000</u>	<u>\$ 84,000</u>

DELTON KELLOGG SCHOOLS

OTHER SUPPLEMENTAL INFORMATION

STATEMENT OF BONDED INDEBTEDNESS
YEAR ENDED June 30, 2008

1998 SCHOOL IMPROVEMENT BONDS \$ 127,529

Balance payable as follows:

<u>Year</u>	<u>Rate</u>	<u>Interest</u>	<u>Principal</u>	<u>Total</u>
2009	4.76	\$ 6,372	\$ 20,438	\$ 26,810
2010	4.76	1,517	7,419	8,936
2011	4.76	1,163	7,773	8,936
2012	4.76	794	8,142	8,936
2013	4.76	<u>406</u>	<u>8,530</u>	<u>8,936</u>
Total		<u>\$ 10,252</u>	<u>\$ 52,302</u>	<u>\$ 62,554</u>

Interest and principal on the bonds of the above issue is payable annually on May 15. As part of the Durant Settlement the annual principal and interest payments are to be made directly by the State of Michigan.

DELTON KELLOGG SCHOOLS

OTHER SUPPLEMENTAL INFORMATION
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
YEAR ENDED June 30, 2008

<u>Federal Grantor/Pass-Through Grantor/ Program Title</u>	<u>Federal CFDA Number</u>	<u>Pass-Through Grantor's Number</u>	<u>Program or Award Amount</u>
<u>U.S. DEPARTMENT OF EDUCATION</u>			
Passed Through State Department of Education:			
Title I - Educationally Deprived	84.010	0715300607 \$ 0815300708	307,209 342,005
Title V LEA allocation	84.298	0702500607 0802500708	388 1,923
Title II Part D	84.318	0742900607 0842900708	3,154 2,986
Title IIA Teacher Quality	84.367	0705200607 0805200708	107,430 109,587
Service Provider Self Review	84.027A	0704400607	4,500
Adult Basic Education Sec. 306 Instruction	84.002	081130810977	120,000
Total passed through MDE			
Passed Through State Department of Labor and Economic Growth:			
Vocational Rehabilitation Services	84.126		30,000
Passed Through Intermediate School District:			
CTE Perkins	84.048		13,408
Drug Free Schools	84.186		6,179
IDEA	84.027		200,500
Total passed through ISD			

TOTAL DEPARTMENT OF EDUCATION
(Continued on next page)

Accrued/ (Deferred) Revenue <u>June 30, 2007</u>	(Memo only) Prior Year <u>Expenditures</u>	<u>Expenditures</u>	<u>Receipts</u>	Accrued/ (Deferred) Revenue <u>June 30, 2008</u>
\$ 198,040	238,040	\$ 44,868	\$ 242,908	\$ -
-		323,207	299,054	24,153
198,040		368,075	541,962	24,153
388	388	-	388	-
-		1,923	1,923	-
388		1,923	2,311	-
3,154	3,154	-	3,154	-
-		2,986	2,986	-
3,154		2,986	6,140	-
37,430	107,430	-	37,430	-
-		109,587	87,175	22,412
37,430		109,587	124,605	22,412
4,200	4,200	-	4,200	-
-		120,000	72,673	47,327
243,212		602,571	751,891	93,892
8,250	30,000	-	8,250	-
-		13,408	13,408	-
-		6,179	6,179	-
-		200,500	200,500	-
-		220,087	220,087	-
251,462		822,658	980,228	93,892
		- 41 -		

DELTON KELLOGG SCHOOLS

OTHER SUPPLEMENTAL INFORMATION
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS - Continued
YEAR ENDED June 30, 2008

<u>Federal Grantor/Pass-Through Grantor/ Grantor/Program Title</u>	<u>Federal CFDA Number</u>	<u>Pass-Through Grantor's Number</u>	<u>Program or Award Amount</u>
<u>U.S. DEPARTMENT OF AGRICULTURE</u>			
Passed Through State Department of Education:			
Nutrition Cluster			
National School Lunch Program	10.555	071950	38,585
		081950	33,242
		071960	175,140
		081960	155,863
National School Lunch Breakfast	10.553	071970	65,855
		081970	64,433
Food Distribution			
Entitlement Commodities	10.550		38,477
Bonus Commodities			795

TOTAL DEPARTMENT OF AGRICULTURE

U.S. DEPARTMENT OF HEALTH AND HUMAN SERVICES

Passed Through Intermediate School District:

Medicaid Outreach	93.778	-
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TOTAL FEDERAL FINANCIAL ASSISTANCE

Notes:

- 1.*Designates Major Program
2. Dollar threshold used to distinguish between Type A and Type B programs - \$300,000.
3. Expenditures in this schedule are in agreement with amounts reported in the financial statements.
4. The amounts reported on the R7120 reconcile with this schedule.
5. This schedule has been prepared under the modified accrual basis of accounting.

Accrued/ (Deferred) Revenue June 30, 2007	(Memo only) Prior Year Expenditures	Expenditures	Receipts	Accrued/ (Deferred) Revenue June 30, 2008
-	34,355	4,230	4,230	-
-		33,242	33,242	-
-	155,395	19,745	19,745	-
-		<u>155,863</u>	<u>155,863</u>	-
-		* 213,080	213,080	-
-	59,152	6,703	6,703	-
-		<u>64,433</u>	<u>64,433</u>	-
-		* 71,136	71,136	-
-		38,477	38,477	-
-		795	795	-
-		* <u>39,272</u>	<u>39,272</u>	-
-		323,488	323,488	-
-		35,525	35,525	-
<u>\$ 251,462</u>		<u>\$ 1,181,671</u>	<u>\$ 1,339,241</u>	<u>\$ 93,892</u>



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INDEPENDENT AUDITOR'S REPORT ON INTERNAL CONTROL
OVER FINANCIAL REPORTING AND ON COMPLIANCE
AND OTHER MATTERS BASED ON AN AUDIT FINANCIAL
STATEMENTS PERFORMED IN OF ACCORDANCE
WITH GOVERNMENT AUDITING STANDARDS

To the Board of Education
Delton Kellogg Schools, Michigan

We have audited the financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of Delton Kellogg Schools as of and for the year ended June 30, 2008, which collectively comprise Delton Kellogg Schools's basic financial statements and have issued our report thereon dated October 6, 2008. We conducted our audit in accordance with U.S. generally accepted auditing standards and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting - In planning and performing our audit, we considered Delton Kellogg Schools's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness on the Delton Kellogg Schools's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the Delton Kellogg Schools's internal control over financial reporting.

A control deficiency exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect misstatements on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the entity's ability to initiate, authorize, record, process, or report financial data reliably in accordance with generally accepted accounting principles such that there is more than a remote likelihood that a misstatement of the entity's financial statements that is more than inconsequential will not be prevented or detected by the entity's internal control.

A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that a material misstatement of the financial statements will not be prevented or detected by the entity's internal control.

Donald L. Paulsen, CPA

Patrick J. Monahan, CPA

Bruce S. A. Gosling, CPA

Michael R. Wilson, CPA

Rick L. Strawser, CPA

Jerrel T. Norman (1941-1982)

Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in internal control that might be significant deficiencies or material weaknesses. We did not identify any deficiencies in internal control over financial reporting that we consider to be material weaknesses, as defined above.

Compliance and Other Matters - As part of obtaining reasonable assurance about whether Delton Kellogg Schools's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

This report is intended solely for the information and use of the Board of Education, management, and federal awarding agencies and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.

Norman S. Paulsen, P.C.

October 6, 2008



REPORT ON COMPLIANCE WITH REQUIREMENTS APPLICABLE TO
EACH MAJOR PROGRAM AND INTERNAL CONTROL OVER COMPLIANCE
IN ACCORDANCE WITH OMB CIRCULAR A-133

To the Board of Education
Delton Kellogg Schools, Michigan

Norman & Paulsen, P.C.

Certified Public Accountants

127 W. Chicago Road
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269.651.3228
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Compliance - We have audited the compliance of Delton Kellogg Schools with the types of compliance requirements described in the U.S. Office of Management and Budget (OMB) Circular A-133 Compliance Supplement that are applicable to each of its major federal programs for the year ended June 30, 2008. Delton Kellogg Schools' major federal programs are identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs. Compliance with the requirements of laws, regulations, contracts and grants applicable to each of its major federal programs is the responsibility of Delton Kellogg Schools' management. Our responsibility is to express an opinion on Delton Kellogg Schools' compliance based on our audit.

We conducted our audit of compliance in accordance with U.S. generally accepted auditing standards; the standards applicable to financial audits contained in Government Auditing Standards issued by the Comptroller General of the United States; and OMB Circular A-133, Audits of States, Local governments, and Non-Profit Organizations. Those standards and OMB circular A-133 require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about Delton Kellogg Schools' compliance with those requirements and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion. Our audit does not provide a legal determination on Delton Kellogg Schools' compliance with those requirements.

In our opinion, Delton Kellogg Schools complied, in all material respects, with the requirements referred to above that are applicable to each of its major federal programs for the year ended June 30, 2008.

Donald L. Paulsen, CPA
Patrick J. Monahan, CPA
Bruce S. A. Gosling, CPA
Michael R. Wilson, CPA
Rick L. Strawser, CPA
Jamil T. Norman (1941-1982)

Internal Control over Compliance - The management of Delton Kellogg Schools is responsible for establishing and maintaining effective internal control over compliance with the requirements of laws, regulations, contracts and grants applicable to federal programs. In planning and performing our audit, we considered Delton Kellogg Schools internal control over compliance with the requirements that could have a direct and material effect on a major federal program in order to determine our auditing procedures for the purpose of expressing our opinion on compliance, but not for the purpose of expressing an opinion on the effectiveness of Delton Kellogg Schools' internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of the Entity's internal control over compliance.

A control deficiency in an entity's internal control over compliance exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect noncompliance with a type of compliance requirement of a federal program on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the entity's ability to administer a federal program such that there is more than a remote likelihood that noncompliance with a type of compliance requirement of a federal program that is more than inconsequential will not be prevented or detected by the entity's internal control.

A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that material noncompliance with a type of compliance requirement of a federal program will not be prevented or detected by the entity's internal control.

Our consideration of the internal control over compliance was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in internal control that might be significant deficiencies or material weaknesses. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses, as defined above.

This report is intended solely for the information and use of the Board of Education, management and federal awarding agencies and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.

Norman J. Puckett, P.C.

October 5, 2008

DELTON KELLOGG SCHOOLS

SCHEDULE OF FINDINGS AND QUESTIONED COSTS
YEAR ENDED June 30, 2008

1. Summary of auditor's results:

- (i) An unqualified opinion was issued on the financial statements.
- (ii) No material weakness or significant deficiency in internal control were disclosed by the audit of the financial statements.
- (iii) The audit disclosed no noncompliance.
- (iv) No material weakness or significant deficiency in internal control over major programs were disclosed by the audit.
- (v) An unqualified opinion was issued on Compliance for major programs.
- (vi) No audit findings were disclosed.
- (vii) Major programs: U.S. Department of Agriculture

Child Nutrition Cluster:

10.553 School Breakfast Program

10.555 National School Lunch Program

10.550 Commodities

- (viii) Dollar threshold used to distinguish between Type A and Type B programs: \$300,000
- (ix) Delton Kellogg Schools qualified as a low-risk auditee.

2. Findings relating to the financial statements which are required to be reported in accordance with GAGAS.

NONE

3. Findings and questioned costs for Federal awards.

NONE

4. Prior year findings:

NONE



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AUDIT-RELATED COMMUNICATIONS

To the Board of Education
Delton Kellogg Schools

We have audited the financial statements of the governmental activities, each major fund and the aggregate remaining fund information of Delton Kellogg Schools (the "School District") for the year ended June 30, 2008, and have issued our report thereon dated October 6, 2008. Professional standards require that we provide you with the following information related to our audit.

Our Responsibility Under U.S. Generally Accepted Auditing Standards and Government Auditing Standards

As stated in our engagement letter dated April 23, 2008, our responsibility, as described by professional standards, is to express opinions about whether the financial statements prepared by management with your oversight are fairly presented, in all material respects, in conformity with U.S. generally accepted accounting principles. Our audit of the financial statements does not relieve you or management of your responsibilities.

Our responsibility is to plan and perform the audit to obtain reasonable, but not absolute, assurance that the financial statements are free of material misstatement.

We are responsible for communicating significant matters related to the audit that are, in our professional judgment, relevant to your responsibilities in overseeing the financial reporting process. However, we are not required to design procedures specifically to identify such matters.

Compliance

As part of obtaining reasonable assurance about whether the financial statements are free of material misstatement, we performed tests of the School District's compliance with certain provisions of laws, regulations, contracts, and grants. However, the objective of our tests was not to provide an opinion on compliance with such provisions.

Donald L. Paulsen, CPA

Patrick J. Monahan, CPA

Bruce S. A. Gosling, CPA

Michael R. Wilson, CPA

Rick L. Strawn, CPA

Jerrel T. Norman (1941-1982)

Internal Controls

As part of our audit, we considered the internal control of the School District. Such considerations were solely for the purpose of determining our audit procedures and not to provide any assurance concerning such internal control.

Our consideration of internal control was for the limited purpose described in the preceding paragraph and would not necessarily identify all deficiencies in internal control that might be significant deficiencies or material weaknesses. However, as discussed below, we identified certain deficiencies in internal control that we consider to be significant deficiencies or material weaknesses.

A control deficiency exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect misstatements on a timely basis. A *significant deficiency* is a control deficiency, or a combination of control deficiencies, that adversely affects the School District's ability to initiate, authorize, record, process, or report financial data reliably in accordance with generally accepted accounting principles such that there is more than a remote likelihood that a misstatement of the School District's financial statements that is more than inconsequential will not be prevented or detected by the School District's internal control.

A material weakness is a significant deficiency, or a combination of significant deficiencies, that results in more than a remote likelihood that a material misstatement of the financial statements will not be prevented or detected by the District's internal control.

We consider the following deficiencies to be a *material weakness* in internal controls:

None Noted

We consider the following deficiencies to be significant deficiencies in internal control:

None Noted

Planned Scope and Timing of the Audit

We performed the audit according to the planned scope and timing previously communicated to you in our meeting about planning matters on June 12, 2008.

Qualitative Aspects of Accounting Practices

Management is responsible for the selection and use of appropriate accounting policies. The significant accounting policies used by Delton Kellogg Schools are described in Note 1 to the financial statements. No new accounting policies were adopted and the application of existing policies was not changed during the year. We noted no transactions entered into by Delton Kellogg Schools during the year for which there is a lack of authoritative guidance or consensus. There are no significant transactions that have been recognized in the financial statement in a different period than when the transaction occurred.

Accounting estimates are an integral part of the financial statements prepared by management and are based on management's knowledge and experience about past and current events and assumptions about future events. Certain accounting estimates are particularly sensitive because of their significance to the financial statements and because of the possibility that future events affecting them may differ significantly from those expected. The most sensitive estimates affecting the financial statements were:

Depreciation

We evaluated the key factors and assumptions used to develop the estimates in determining that they are reasonable in relation to the financial statements taken as a whole.

The disclosures in the financial statements are neutral, consistent, and clear. Certain financial statement disclosures may be particularly sensitive because of their significance to financial statement users. We did not identify any sensitive disclosures.

No Difficulties Encountered in Performing the Audit

We encountered no significant difficulties in dealing with management in performing and completing our audit.

Corrected and Uncorrected Misstatements

Professional standards require us to accumulate all known and likely misstatements identified during the audit, other than those that are trivial, and communicate them to the appropriate level of management. Management has corrected all such misstatements. In addition, none of the misstatements detected as a result of audit procedures and corrected by management were material, either individually or in the aggregate, to the financial statements taken as a whole.

No Disagreements with Management

For purposes of this letter, professional standards define a disagreement with management as a financial accounting, reporting, or auditing matter, whether or not resolved to our satisfaction, that could be significant to the financial statements or the auditor's report. We are pleased to report that no such disagreements arose during the course of our audit.

Management Representations

We have requested certain representations from management that are included in the management representation letter dated October 6, 2008.

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Management Consultations with Other Independent Accountants

In some cases, management may decide to consult with other accountants about auditing and accounting matters, similar to obtaining a "second opinion" on certain situations. If a consultation involves application of an accounting principle to the governmental unit's financial statements or a determination of the type of auditor's opinion that may be expressed on those statements, our professional standards require the consulting accountant to check with us to determine that the consultant has all the relevant facts. To our knowledge, there were no such consultations with other accountants.

Other Audit Findings or Issues

We generally discuss a variety of matters, including the application of accounting principles and auditing standards, with management each year prior to retention as Delton Kellogg Schools' auditors. However, these discussions occurred in the normal course of our professional relationship and our responses were not a condition to our retention.

This information is intended solely for the information and use of the Board of Education and management of Delton Kellogg Schools and is not intended to be and should not be used by anyone other than these specified parties.

We are pleased to serve as the School District's auditors. If there are any questions about the audited financial statements or the contents of this letter, we would welcome the opportunity to discuss them at your convenience.

Sincerely,

Norman S. Paulson, P.C.

October 6, 2008

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